GAMBIA COMPETITION & CONSUMER PROTECTION COMMISSION

Leveling the Field for Development

<u>Cement Study</u>

EXECUTIVE SUMMARY

The GCCPC carried out a market study on the cement industry in line with its mandate to conduct studies on key sectors of the economy under section 15(k) of the GCC Act 2007. Cement is a fundamental component for infrastructural development. The Gambia from the early 1990s to date is witnessing a boom in housing and real estate development coupled with government desire of providing affordable housing for all, especially civil and public servants.

The Gambia like many in Sub-Saharan Africa is a cement importing country with little industrial activity other than packaging in the sector. It is observed that prices of cement in recent years have been increasing at an alarming rate hence the Commission undertook a research study of this sector to ascertain if anti-competitive behaviors are responsible for such increments.

The Commission found no anti-competitive behaviors in the industry, and the industry is presently more competitive than ever. However, the factors found out to be responsible for the price increments of cement are mainly the insufficient local capacity for supply of cement, depreciation of the Dalasi against the CFA, scarcity of foreign exchange, and the Gambia not being a cement producing country. Hence no anti-competitive practice is found in the market the Commission urges the responsible authorities to keenly look at the other factors plaguing the cement industry.

INTRODUCTION

The cement sector in The Gambia is still in its infant stage, and most of the cement consumed is mainly imported from Senegal, thereby increasing trade deficit for the country. The Gambia has never had a cement producing company. The cement factories in the country (Gacem, Salam and Tiger) only bag imported powder cement. Gacem was the only cement bagging factory in The Gambia for decades. In recent years, the incentives derived by Gacem from the importation of powdered cement motivated competitors like Salam and Jah Oil to establish cement bagging factories. This has resulted to stiff competition in the industry, thus leading to Gacem losing its monopoly status to Salam in the first quarter of 2014 (See Table 1).

The Cement industry over the last two decades has been one of the booming sectors for the nation, and this has been a result of the infrastructural development (roads, bridges, public buildings, real estate homes etc) the nation has gone through. Cement is the most essential product in construction, and the advancements in infrastructural development have led to an increase in demand and consumption of cement over the years. Cement is an inelastic product and the increase in demand has not matched the supply within the local market, and this is a contributor to the significant price increases in cement sector over the years. The high prices have been a nationwide concern as it has immensely led to increase in construction cost. Infrastructural development and improvement in living standards have also been halted by the unaffordable cement prices.

The key players in the cement industry are presently Gacem, Salam, and Jah Oil Company as these are the players that normally import the cement in powder form, bag it locally with their own brands and sell to the market. There are also other market players however, they import bagged cement from Senegal mainly and sell to the local market. The cement market is highly concentrated mainly because it entails very high set up cost, it is capital and labor intensive, and as a result there has been limited investment in the sector over the years.

PURPOSE AND OBJECTIVES OF THE STUDY

The Commission is empowered by section 15(k) of the Competition Act 2007 to carry out a study on the effectiveness of competition in each sector of the economy in The Gambia. The study was prompted because of a nationwide outcry on the increasing price of cement, and the purpose of this study is to understand the cement industry and determine if anti-competitive practices have played a part in the cement price increment in recent years.

STUDY METHODOLOGY

The study used three methods (Interviews, Questionnaires, Desk Research) to obtain the needed quantitative and qualitative data. The Ministry of Trade Regional Integration and Employment (MOTIE), Gambia Revenue Authority (GRA), Gambia Bureau Of Statistics (GBOS), and Gambia Import and Export Promotion Agency (GIEPA), furnished relevant documents to inform the study. Data relevant to the study was gathered, compiled and analyzed from 2010 to the first quarter of 2014 covering four years activities of players in the industry.

The commission received 13 completed questionnaires, and conducted 32 interviews nationwide with key stakeholders. All regions of the country were visited including the borders to get additional insight into the industry and the challenges it is facing.

MARKET DEFINITION

Market definition is defined by the product and the geographical space in which the product is marketed or served. In this case, the relevant product market of the study is cement, a product that has no substitute and the Gambia constitutes its geographical market.

CEMENT COMPANIES IN THE GAMBIA

Gacem:

Gacem is established and owned by Mr. Amadou Samba with its factory situated in Kanifing Industrial Estate. It's been part of the Italian based Italcementi Group since 1993. Italcementi is one of the world's largest cement producers. Gacem is the first Cement Company to be established in the Gambia and one of the biggest importers of cement. They import most of their cement from Portugal, Spain, Italy and recently Senegal**.** Gacem's cement brand is called Bambo cement. They import cement in powder form and package it in their 'Bambo'' brand. The brand is mostly concentrated within the greater Banjul area.

Jah Oil Company:

Jah Oil Company established in 2011 is owned by Mr. Hamidou Jah. They import cement in powder form, and package them as Tiger Cement. This company is emerging as one of the top cement companies within a relatively short period of time, as result of its immense presence and strategic location in the up-country. Jah Multi Industrial Company currently has two factories, one in Brikama and the other in Basse. The factory in Basse is a major distributor of cement in all regions of the provinces (URR, CRR, LRR and NBR) whilst the factory in Brikama mainly focuses on the greater Banjul and Western Coast Region. The company's strategic location in the provinces has given it a competitive edge as it sells its cement relatively cheaper than its competitors mainly because of proximity and lower transportation cost. The main competitors for the company in the up-country are Socosim and les cements du Sahel which are imported bagged cement from the Senegal

Salam:

Salam Cement is owned by Mr Muhammadou Sillah with its main office in Jimpex. He started his business as an importer of Socosim bagged cement from Senegal. However, in 2013 they stopped importing bagged cement and started importing powder cement which is packaged (Salam brand) at their factory at Denton Bridge. Their main market for cement imports was Senegal until recently they have diversified their market to Morocco and Portugal.

The diversification was a result of supply shortage from the Senegalese market. Presently their new suppliers have met all their demands for cement, but the main constraint with the new suppliers is that they no longer enjoy ETLS.

In 2014, Salam emerged as the market leader, controlling 30% (see table 1) of total imported cement, thus, gaining a monopoly situation over the former market leader, Gacem.

Salam like Jah oil benefits from a Special Incentive Certificate (SIC) from the government through GIEPA for the establishment of a new firm.

INVESTMENT INCENTIVES

The cement industry may enjoy three kinds of incentives which are the ECOWAS Trade Liberalization Scheme (ETLS), Special Investment Certificate (SIC) and duty waivers. ETLS is a market access facility that promotes the West African region as a free trade area, in which businesses in West Africa benefit from when qualified, and its aim is to mainly encourage manufacturing and agriculture within the region. With the ETLS you can export products to member states DUTY-FREE to be able to access markets easily. There are two criteria's needed : 1) sourcing 100% of raw materials from the west African region 2) 30% of value added to the product is done within the region. If a business qualifies they are certified by the national approval committee after verification of documents by ECOWAS, after which the state-members will be notified.

Jah Oil (tiger) and Salam company (Salam) are the two currently enjoying Special Investment Certificate (SIC) from GIEPA. This is an incentive given to new businesses and it serves as an attraction for potential new entrants into the industry. The SIC holders are exempted from paying corporate or turnover tax, value added tax on imported direct inputs, depreciation allowance and also withholding tax on dividends. Thus the two may enjoy a cheaper importation cost than Gacem.

Basiru Touray the leading importer of bagged cement (sococim) is currently enjoying duty waivers for the supply of cement for the construction of the National assembly building and American International University. Contracts offered by the Government have agreement on duty waiver with businesses for the importation of materials needed for that specific contract and the purpose is to be able to reduce the construction cost of government projects. These contracts have the specified amount of cement tons to be used for the contract to which the waiver applies, and monitoring duty waiver on government contracts is the responsibility of customs. Lack of monitoring these contracts may possibly give businesses involved an unfair competitive advantage over their competitors.

Table 1: MAJOR IMPORTERS MARKET SHARE

COMPANY NAME	**2010**	**2011**	**2012**	**2013**	**2014**
GACEM LTD	66%	69%	70%	60%	14%
JAH OIL	0	5%	6%	11%	23%
SALAM COM	16%	14%	12%	10%	30%
OTHERS	18%	12%	12%	19%	33%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**

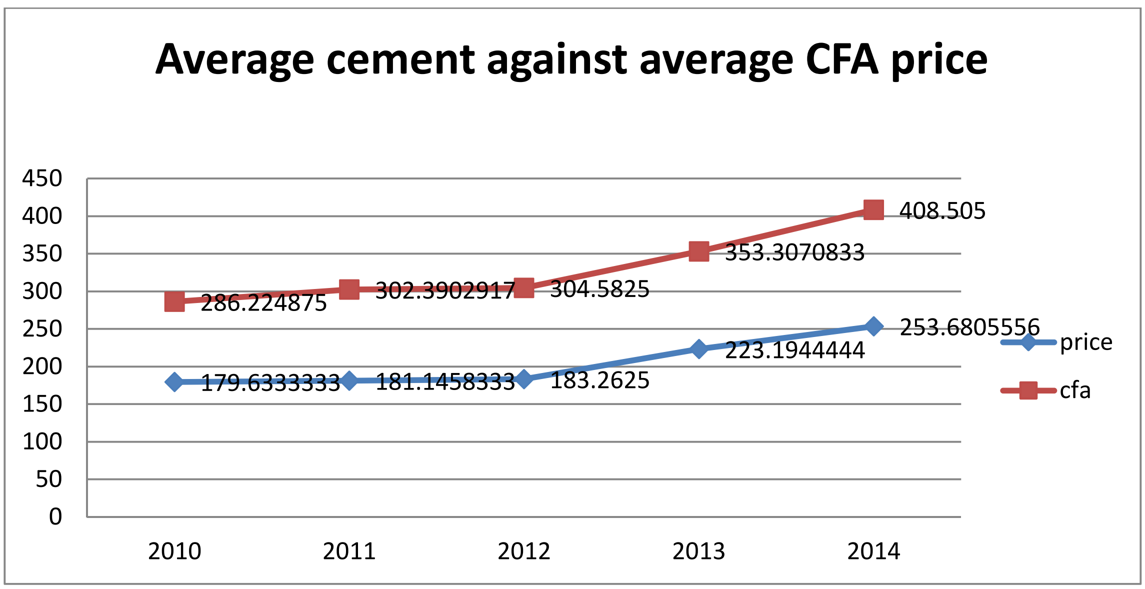
*****_Jah oil started cement business in 2011._

The table above shows the market shares of major cement importers in The Gambia for the period under study (2010- 2014 first quarter). **GACEM** enjoyed a monopoly situation in 2010, 2011, 2012 and 2013 with market share of **66%, 69%, 70**% and **60**% but lost its monopoly to **SALAM** in the first quarter of 2014. During this period, **SALAM** has **30**% of total import while **GACEM** has **14**% of the total imports. There exists a monopoly situation in all the years under study as defined by section 31 of the Competition Act 2007 because the market share of **GACEM** in 2010, 2011, 2012 and 2013 were more than **30**% and the share of **SALAM** in the first quarter of 2014 was **30%.**

MARKET CONCENTRATION

The market concentration was calculated using the Herfindahl-Hirschman Index (HHI). The computed Concentration Index was, **4,692, 5,007, 5,096, 3,887, and 1,734** for 2010, 2011, 2012, 2013 and first quarter of 2014 respectively. According to HHI, a concentration index of above **1,800** is considered high. The theory suggests that, high market concentration leads to limited competition and inefficiency thus there is higher chance of collusion and abuse of dominance. The reduction in the level of concentration to less than 1,800 in the first quarter of 2014 is an indication of the market being more competitive but still calls for close monitoring.

PERCENTAGE CHANGE IN AVERAGE ANNUAL CEMENT PRICE AND PERCENTAGE IN AVERAGE ANNUAL EXCHANGE RATE (CFA)



Data source: *Central Bank of the Gambia (Average annual price of CFA) and MOTIE (average price of cement)*

The graph above indicates that there is a positive relationship between average annual price of cement and the CFA. It also shows that, there has been a continuous increase in both the average annual price of cement and that of the CFA from 2010 to second quarter of 2014. This confirms that the CFA is a strong determinant of the price of cement. Thus for there to be a reduction in price of cement, the depreciation of the Dalasis against the CFA must be taken care of by responsible authorities. The study revealed that, about 86% of cement consumed in The Gambia during the period under study is imported from Senegal using CFA.

Given the importance of cement in the development and building of infrastructure of a nation such as the Gambia with a construction boom (*real* estate, road construction, domestic housing etc), this huge percent of the cement import from Senegal using CFA should be a cause for concern for authorities to look into the appreciation of the CFA against the dalasi.

COST STRUCTURE PER BAG

The analysis of the cost structure of the first half of 2014 (January to June) is used to determine the current cost structure of cement. The cost structure is divided into bagged Gambian brand and imported brand from Senegal (Sococim).

Table 2: Cost structure of re-bagged cement per bag (Jan-June, 2014)

COST	**2014**
CIF/bag	71.27
Custom Duties & other direct charges	42.05
Overheads	80
Total Cost	193.32
Average Wholesale Price	250
Profit Margin	**56.68 (29%)**

Data source: ***CIF and Custom charges are obtained from GRA, Ports charges from GPA and wholesale prices from importers.***

The table above is the cost structure of imported cement for re-bagging. The average cost of the three re-bagging firms is computed to determine the average cost of re-bagged cement in The Gambia. From the table, the average wholesale price charged for cement between

January and June, 2014 is **29%** higher than the economic total cost. This finding is inconsistent with the submission made by the importers to the commission. According to their submission, the average cost of re-bagged cement is **241.55** (**3%** higher than the economic total cost). This is due to the variation in the CIF figures submitted by importers and the figure received from GRA, but the figure from GRA is used to compute the CIF per bag.

Table 3: Cost structure of imported bagged cement per bag

COST	**2014 D**
CIF/bag	118.4
Custom Duties & other direct charges	36.25
Overheads	50
Total Cost	**204.65**
Average Wholesale Price	252.2
Profit Margin	**47.55 (23%)**

Data source: ***CIF and Custom charges are obtained from GRA, Ports charges from GPA and average wholesale price from importers.***

The table is the cost structure of imported bagged cement from Senegal (Sococcim). The average cost of the major importer (Basiru Touray) is computed to determine the average cost of bagged cement from Senegal. From the table above the average wholesale price charged for cement in the first half of 2014 is **23%** higher than the economic total cost. This finding is inconsistent with the submission made by the importer to the commission. According to the submission of the importers, the average cost of re-bagged cement is **D248** (**2%** higher than the economic total cost). This is due to the variation in the CIF figures submitted by importers and the figure received from GRA, but the figure from GRA is used to compute the CIF per bag.

The CIF values for both categories differ with the CIF received from GRA, therefore leading to inconsistent cost of production. We therefore recommend that there should be close monitoring of the administration of the CIF submitted to GRA by importers.

In conclusion the analysis shows no patterns of anti-competitive pricing within the market but there will be continuous monitoring for such.

FINDINGS

Competition Issues:

The Commission has not found any evidence of anti-competitive practices in the cement industry, and price of cement is determined by market forces of demand and supply however, there are several other factors responsible for the price hike of cement over the years. These factors are mainly insufficient local capacity, depreciation of the Dalasis against the CFA, scarcity of foreign exchange, and the Gambia not being a cement producing country.

Other Findings:

- Insufficient local capacity is one of the main reasons for the price hike of cement over the years, as the re-bagging companies have complained that their demand for cement powder has rarely been met by the Senegalese companies, thus causing regular shortages. However, some of the companies have started or about to start diversifying their source markets to countries like Portugal, Italy, Spain, Morocco etc

- Depreciation of the Dalasi against the CFA is another reason for the recent increment in price. The importers stated that the cement prices in Senegal are usually stable but the continuous depreciation of dalasi against the CFA is making import expensive, thus leading to increase in both wholesale and retail price of cement in the country.

- Scarcity of foreign exchange is cause of concern to sector players. The major importers have complaint the scarcity of the CFA usually contribute to the delay of their orders, thus leading to scarcity of cement in the local market.

- The Gambia not having a cement producing company has been a constraint for this country as the production of cement would have solved the problem of cement shortages and prices would have been more competitive.

- During the early stages of the study there was a significant price hike in cement (April 2014) and depreciation of the Dalasi and the border closure were said to be key factors responsible.

- Jah Oil Company have a cement factory in Basse and **is** the main supplier of local bagged cement in the up-country (Tiger Cement)

- At least 90% of the cement sold up-country is either from Jah Oil Company or imported from Senegal as other brands like Salam and Gacem are almost nonexistent

- Senegal exports cement to the Gambia at a relatively cheap price compared to the price of their local cement sold within their country.

- Custom charges D30 per bag of cement imported through the boarder in upcountry

DISCUSSION OF FINDINGS

There are only three companies with cement factories locally, thus making cement market concentrated but these companies have taken turns in enjoying monopoly positions at different times (see table 1). It is important to note that the high market concentration and monopoly may not necessarily mean there exists anti-competitive practices in the industry. As a matter of fact the cement industry has actually been more competitive than ever as there are now two more companies re-bagging cement locally (Salam and Jah Oil) compared to decades ago when Gacem was the sole re-bagging company. This has resulted in price wars between these companies, and the price wars only occur when at least two of the companies have cement in stock. Given the regular scarcity of cement, the companies take advantage of their competitor's shortage of cement to hike prices. The study has established that prices have been lower when there has been adequate supply of cement in the market.

CONCLUSION

The Commission found no anti-competitive practices, and the pricing mechanisms are also found be done in a competitive manner. The Commission thus urges all responsible authorities to keenly look into the factors plaguing the cement industry so the industry would be more attractive for new entrants. This is important as more new market entrants will help reduce the market concentration and avoid existence of a monopoly situation, which in turn lessens the likelihood of collusion or other types of anti-competitive practices in the future. The Commission vows to continue monitoring this sector for any suspected anti-competitive practices.